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SUBJECT: SERBIA AND IMF - DECISION POSTPONED ON SECOND TRANCHE

REF: BELGRADE 912; BELGRADE 838

Summary

1. (SBU) The IMF and Serbia postponed on September 1 any decision regarding the disbursement of Serbia's second tranche of IMF funds until at to October, however, the burden falls to Serbia to show that its economy is rebounding and that it is serious about undertaking reform. Not re

Sides Agree to Postpone Second Tranche

2. (SBU) Following a week of negotiations in Belgrade, the visiting IMF team and the Serbian government announced on September 1 that a decis second tranche had been postponed until late October, at the earliest. IMF team leader Albert Jaeger said at a joint press conference with Ser

3. (SBU) GoS representatives were more optimistic in their review of the IMF visit. Mladjan Dinkic, Deputy Prime Minister and Minister of Ec to postpone." National Bank of Serbia Governor Radovan Jelasic was much less enthusiastic about the state of talks. Local media headlines, hc on the lack of an agreement. The Prime Minister's Economic Advisor, Tatjana Isakovic told us on September 3 that the government was pleased wi

IMF: Serbia Had the Chance to Get the Deal

4. (SBU) IMF Resident Representative in Belgrade, Bogdan Lissovolik, told us on September 3 that Serbia "had an opportunity to get the deal dc a contingency plan. However, Lissovolik said that the Serbian government was unwilling to consider a VAT hike under any circumstance. (Serbis is 18%. Lissovolik said the GoS's proposed measures of freezing pensions and public wages, nominally freezing public expenditures, and cutting public employees "did not add up." Lissovolik said there were also many uncertain variables since many of the proposed cuts would be on the mu Lissovolik said any payoffs from reducing the public sector would only benefit Serbia in the medium term. He concluded that to date, Serbia's

In the Interim: Special Drawing Rights

5. In the interim period, Serbia will be able to access an additional \$500 million in funding, through its Special Drawing Rights with the IM support.

Vienna Agreement Cancelled if Next Revision Fails

6.(SBU) Despite failing to reach agreement with the IMF, Serbia's monetary policy remains stable and commercial banks have maintained their exp

COMMENT

7. (SBU) Despite government efforts to portray the IMF postponement in a positive light, the delay effectively shows the government's inability Serbia will have another chance with the IMF in late October/early November. The GoS would be wise not to squander that opportunity. End Comm BRUSH